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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman

WILLIAM A. MUNDELL

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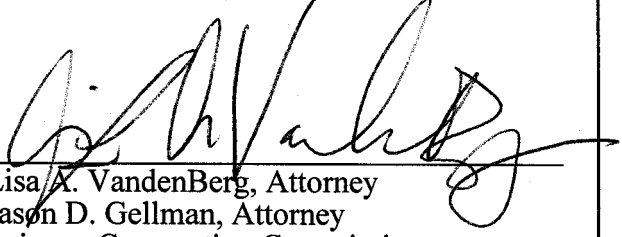
IN THE MATTER OF THE APPLICATION OF
PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE AND FOR APPROVAL TO
INCUR LONG-TERM DEBT.

Docket No. W-03512A-03-0279

**STAFF'S NOTICE OF FILING
REBUTTAL TESTIMONY**

The Utilities Division Staff ("Staff") of the Arizona Corporation Commission hereby files the
Rebuttal Testimony of Marlin Scott, Jr., of the Engineering Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 1st day of February, 2005.


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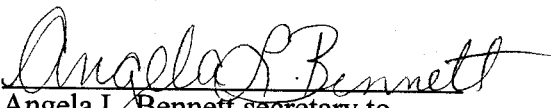
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**REBUTTAL
TESTIMONY
OF
MARLIN SCOTT, JR.**

DOCKET NO. W-03512A-03-0279

**IN THE MATTER OF THE APPLICATION OF
PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY, A RATE INCREASE AND FOR
APPROVAL TO INCUR LONG-TERM DEBT**

FEBRUARY 1, 2005

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY, A RATE INCREASE AND FOR
APPROVAL TO INCUR LONG-TERM DEBT.

DOCKET NO. W-03512A-03-0279

(COMPLIANCE STAFF REPORT
REGARDING THE NEED TO
INSTITUTE A MORATORIUM)

REBUTTAL TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

FEBRUARY 1, 2005

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
Introduction.....	1
Moratorium on New Meters.....	1
ADEQ Compliance Issues	4

**EXECUTIVE SUMMARY
PINE WATER COMPANY
DOCKET NO. W-03512A-03-0279**

After having read the testimony of Pine Water Company ("Pine Water"), Staff still recommends that no new service connections be added to the Pine Water system at this time. Staff will continue to review compliance reports as submitted by Pine Water and will provide a full report, including the possibility of operating Strawberry Water Company and Pine Water as one system, by September 30, 2005, as originally ordered in Decision No. 64400.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. Are you the same Marlin Scott, Jr. that previously testified in this docket?**

8 A. Yes, I filed Direct Testimony on October 15, 2003, Surrebuttal Testimony on January 20,
9 2004, and testified at the rates/financing hearing on March 11, 2004.

10
11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of my rebuttal testimony is to respond to testimony submitted by Pine Water
13 Company, Inc. ("Pine Water or Company") concerning the November 19, 2004
14 Compliance Staff Report regarding the need to institute a moratorium per Decision No.
15 67166 and the Arizona Department of Environmental Quality ("ADEQ") compliance
16 issues.

17
18 **MORATORIUM ON NEW METERS**

19 **Q. Have you reviewed the Direct Testimony of Robert T. Hardcastle concerning Staff's**
20 **recommendation for the need to institute a moratorium on new service line and**
21 **meter installations?**

22 A. Yes. Mr. Hardcastle opposes Staff's recommendation for the need of a moratorium on
23 new service connections mainly for reasons that it will preclude the Company from adding
24 a reasonable number of new service connections and will create an incentive for Gila
25 County and the local real estate and development community to continue to find ways to

1 circumvent a Commission moratorium and grow the community utilizing the same water
2 supply relied upon by Pine Water.

3
4 **Q. Does the Company agree with Staff that the Pine area is faced with a serious water**
5 **supply limitation?**

6 A. Yes.

7
8 **Q. If the Company opposes a moratorium but acknowledges that the water supply**
9 **limitation is serious, did the Company provide any assessments on how many service**
10 **connections could be served by its water system?**

11 A. No.

12
13 **Q. Please explain why Staff is recommending a moratorium on new service connections?**

14 A. Based on a review of customers water use from August 2002 to July 2004, Staff
15 determined that Pine Water's 19 well production source could adequately serve a
16 maximum of 555 average water customer users¹. This number is particularly striking
17 when one considers that during the peak month (June), Pine Water had 1,752 customers
18 consistently using water and only 240 (out of the 1,992 active accounts) that did not take
19 water during that month.

20
21 **Q. Please explain how Staff calculated the 555 service connection figure?**

22 A. Staff evaluated the Water Use Data Sheets submitted by the Company and used the peak
23 month, June 2003, to evaluate the Pine Water system. Staff used the actual water used
24 (6,400,669 gallons) during that peak month, and divided by 30 days and the number of
25 actual water users (1,752 users) to determine the 121.78 gallons per day ("GPD") per user.

¹ Note that average water customer user is synonymous with the term "service connection" in the original compliance report.

1 then used the 121.78 GPD per user and multiplied by a factor of 2.0 to determine a value
2 of 243.56 GPD per user, which equated to a value of 0.17 gallons per minute ("GPM") per
3 user. Finally, Staff used the 19 well production source (totaling 93.88 GPM) and divided
4 by 0.17 GPM per user to calculate the figure of 555 service connections.

5
6 **Q. Why did Staff use a multiplying factor of 2.0?**

7 A. Multipliers are typically used if direct peak day water use data is not available. The factor
8 of 2.0 was used because Pine Water has high seasonal and weekend use.

9
10 **Q. Is Staff aware of other water supplies that may supplement the Pine Water system?**

11 A. Yes. Staff is aware that, 1) Pine Water can receive water from Strawberry Water
12 Company ("SWC") through the Project Magnolia pipeline and, 2) Pine Water can haul in
13 water by truck.

14
15 **Q. Did Staff consider these two additional water supplies in its assessment?**

16 A. Yes. Page 3 of the Staff Report discusses the fact that with a sustained flow of 250 GPM
17 (half capacity) from Project Magnolia, Pine Water could barely support all the connections
18 it has today. However, Strawberry has eight wells that can produce less than 110 GPM.
19 Therefore, continuous use of Project Magnolia at even half capacity would very quickly
20 be detrimental to water service in Strawberry. As for water hauling by truck, Staff
21 considers this operation an emergency procedure.

22
23 **Q. Why doesn't Staff believe that the water availability from SWC is enough to support
24 Pine Water?**

25 A. Because even when water is being supplied by Project Magnolia, the Company is also
26 hauling water in by trucks at the same time. (See Graph 1.)

ADEQ COMPLIANCE ISSUES

Q. Have you reviewed the Direct Testimony of Robert T. Hardcastle concerning the ADEQ compliance issues?

A. Yes. Mr. Hardcastle addressed and/or discussed the four compliance issues; 1) a Consent Order for the old E&R-Pine System concerning as-built drawings, 2) a Notice of Violation ("NOV") for two wells operating without an Approval to Construct or an Approval of Construction, 3) a NOV for SWC for failing to provide a consumer confidence report, and 4) the 20 plant facility items that have deficiencies.

Q. Have all these compliance issues be resolved?

A. No. The only compliance issue that was resolved was the NOV for SWC. The remaining other three compliance issues are still valid and being resolved by the Company.

Q. Based on the Company's updated information provided at this time, is Pine Water currently delivering safe water?

A. This status is not known at this time. Staff has requested an updated Compliance Status Report from ADEQ and will file this report in Docket Control when it is received.

Q. Does Staff have any other comments regarding the ADEQ compliance issues?

A. Yes. In its inspection report dated November 2, 2004, the ADEQ inspector noted that one inspection report was being issued for the three systems; Strawberry PWS 04-006, Pine 04-034 and 04-043. This action was taken because the three regulated systems are interconnected and owned by the same entity, and therefore, ADEQ considers them to be one system.

1 **Q. Did the Company mention or address the possibility of the Pine and Strawberry**
2 **systems becoming one system?**

3 A. No. The Company ignored the ADEQ field inspector's recommendation and did not
4 provide any comment or an opinion of Pine Water's position.
5

6 **Q. According to ADEQ, are the Pine and Strawberry systems considered one system?**

7 A. At this time, Staff has not been officially notified by ADEQ that these two systems are one
8 system. When Staff read ADEQ's inspection reported, dated November 2, 2004, Staff
9 took the "one system" statement as the field inspector's recommendation, this
10 recommendation to combine the Pine and Strawberry systems as one system is still under
11 review by ADEQ.
12

13 **Q. After reviewing the comments of the Company's Direct Testimony, has Staff's**
14 **position changed regarding the moratorium?**

15 A. No. Staff still recommends that no new service connections be added to the Pine Water
16 system at this time. Staff will continue to review compliance reports as submitted by Pine
17 Water and will provide a full report, including the possibility of operating Strawberry
18 Water Company and Pine Water as one system by September 30, 2005 as originally
19 ordered in Decision No. 64400.
20

21 **Q. Does this conclude your rebuttal testimony?**

22 A. Yes, it does.

Pine Water System
Consumption by Customer Summary

REVISED Attachment A

Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
											750
							3880	4410	3680	5190	4080
											90
										1110	940
										1600	1020
0	0	1797	-1297	0							
0											
						1950	5180	4690	4380	8170	6610
								20	0	11080	-11080
						10	0	800	30	0	0
						10	0	0	0	0	0
						2130	8480	8310	10670	2600	13940
	0	0	0	0							
						0	0	0	0	130	750
						1310	1430	680	850	1190	1690
								5990	9270	8000	8420
4350	7560		3200								
		6560	-1000								
										10	0
						40	80	0	0	0	0
								10	0	0	0
300	220	340	0								
							0	10			
									250	150	350
0	0	110	-110								
0											
2210	200	0	0	0							
0	0	1270									
5240	3160										
4480	3780	4910	5090								
											4870
720	420	600	650								
										10	0
											1050
										550	1370
										7270	4520
480	4120	8306									
						4610	4210	3690	3080	1340	580
17,780	19,460	23,893	6,533	0	6,396,479	10,060	23,260	32,330	32,260	48,430	40,010
Actual use:					6,400,669						
Days:					30						
GPD:					213,356						
# of users:					1752						
GPD/user:					121.78						
x 2.0:					243.56						
GPM/user:					0.17						
Wells - GPM:					93.88						
# can serve:					555						
PM = 250 gpm:					2,022	Use 2,000					

Pine Water Co. - Water Availability and Use

